

Message Text

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TO SECSTATE WASHDC IMMEDIATE 5258

INFO AMEMBASSY PARIS IMMEDIATE

S E C R E T ROME 0973

EXDIS

C O R R E C T E D C O P Y (TEXT - PARA C, D, AND E)

DEPT PASS USDEL SECRETARY

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

PARIS PASS TREASURY ATTACHE FOR D.C. TEMPLEMAN

E.O. 11652: GDS

TAGS: EFIN, IT

SUBJECT: CLOSING OF ITALIAN EXCHANGE MARKET

REF: ROME 0971

1. IN CONVERSATION WITH ECOMIN MORNING JANUARY 21 (TREASURY ATTACHE OUT OF COUNTRY), BANK OF ITALY DIRECTOR GENERAL OS-SOLA PROVIDED FOLLOWING INFORMATION ON CLOSING OF ITALIAN EXCHANGE MARKET:

(A) BOI GOVERNOR BAFFI HAS OFFICIALLY INFORMED FEDERAL RESERVE CHAIRMAN BURNS AND HE UNDERSTANDS THAT TREASURY MINISTER COLOMBO HAS INFORMED SECRETARY SIMON.

(B) WHILE HEAVY SPECULATION AGAINST LIRA OBVIOUSLY LINKED TO POLITICAL CRISIS, WIDESPREAD PUBLICITY GIVEN TO ACTIONS OF COMPTROLLER OF THE CURRENCY VIS-A-VIS U.S. BANK OPERATIONS IN ITALY WAS CONTRIBUTING FACTOR.

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(C) DECISION TO CLOSE EXCHANGE MARKET CAME QTE ONE WEEK TOO LATE UNQTE. OSSOLA HAD BEEN URGING THAT COURSE OF ACTION FOR PAST WEEK, BUT HE UNABLE OVERCOME GOI RELUCTANCE, APPARENTLY BASED ON POLITICAL CONSIDERATIONS, UNTIL EVENING JANUARY 20.

(D) INITIAL INDICATIONS ARE THAT LIRE IS SETTLING AT RATE AROUND 715 TO THE DOLLAR. WHILE STRESSING THAT THIS WAS VERY PRELIMINARY, OSSOLA SAID THIS QTE SLIGHT DEVALUATION UNQTE WAS CONSIDERABLY LESS THAN BOI ESTIMATES.

(E) SPECULATIVE PRESSURE HAS NOW SHIFTED TO FRENCH FRANC. AS OF MID-MORNING FRENCH MONETARY AUTHORITIES HAD ALREADY SPENT \$77 MILLION TO SUPPORT FRANCE.

(F) OSSOLA UNWILLING MAKE ANY GUESS HOW LONG MARKET WOULD REMAIN CLOSED.

(G) MAJOR EFFORT TO BOLSTER ITALY'S FINANCIAL POSITION IS REQUEST FOR \$450 MILLION DRAWING FROM IMF, I.E., 45 PERCENT INCREASE IN ITALY'S TRANCHES AS RESULT OF RECENT KINGSTON MEETING. BOI VICE DIRECTOR GENERAL ERCOLANI ARRIVING WASHINGTON AFTERNOON JANUARY 22, AND OSSOLA APPARENTLY HOPEFULLY OF FAVORABLE ACTION BY IMF WITHIN ABOUT TEN DAYS. REQUEST FOR DRAWING UNDER US-ITALY SWAP ARRANGMENT (STATE 14401 NOT-AL), WHICH OSSOLA NOTED PARENTHETICALLY WAS NOT AS AUTOMATIC AS BOI HAD THOUGHT, WOULD BE TO COVER ITALY FOR PERIOD UNTIL IMF DRAWING CONCLUDED.

2. CLOSING OF EXCHANGE MARKET ADDS NEW FACTOR TO ALREADY-CONFUSED POLITICAL SITUATION. WHILE OSSOLA DECLINED TO BE DRAWN INTO DISCUSSION OF POLITICAL RAMIFICATIONS, EMBASSY EXPECTS THAT BOI'S ACTION, WHICH CAN HARDLY BE FAULTED BY PSI AND/OR PCI, SHOULD REDOUND TO ADVANTAGE OF CHRISTIAN DEMOCRATS (DC). DC CRITICISM OF PSI FOR BRINGING DOWN THE GOVERNMENT AT TIME OF ECONOMIC CRISIS IS NOW REINFORCED, AND DC SHOULD FIND PSI MORE ON DEFENSIVE IN THEIR NEGOTIATIONS ON FORMATION OF NEW GOVERNMENT. VOLPE

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